

**COMMONWEALTH OF MASSACHUSETTS
BEFORE THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

WESTERN MASSACHUSETTS ELECTRIC COMPANY

D.T.E. 02-49

SUPPLEMENTAL TESTIMONY OF RANDY A. SHOOP

ON BEHALF OF

WESTERN MASSACHUSETTS ELECTRIC COMPANY

NOVEMBER 2002

SUPPLEMENTAL TESTIMONY OF RANDY A. SHOOP

I. USE OF PROCEEDS

Q. Has WMECO reached an agreement with DRI to establish and fund a trust account with proceeds of the Long-term Debt issuance as discussed in your initial testimony?

A. No, unfortunately WMECO has not been able to reach an agreement with DRI on several key issues regarding DRI's ownership and management of a trust funded with the proceeds of the Long-term Debt issuance.

Q. How will WMECO proceed to finance its PSNF liability without an agreement with DRI?

A. As discussed on page 10 in my original testimony in this docket and in response to DTE-01, Q-DTE1-007, WMECO has another option in the absence of an arrangement with DRI. That option is to establish a similarly-structured trust funded with proceeds of the Long-term Debt issuance with WMECO as the beneficiary and owner of the funds and Northeast Utilities Service Company ("NUSCO"), the service company affiliate of WMECO, acting as agent on behalf of WMECO for the purpose of administering the trust agreement. DRI would not have any involvement in this trust arrangement. I am testifying in support of this option.

Q. Please describe how this alternative is different from the previous option involving DRI.

A. The alternative wherein WMECO would own the trust, and NUSCO would operate the trust is similar in many ways to the structure involving DRI, as both will provide WMECO with the same benefits discussed in my original testimony. In both alternatives, a portion of the proceeds of the Long-term Debt issuance (excluding the proceeds used to retire short-term debt and pay issuance expenses) will be used to fund a trust for the purpose of satisfying the obligation to DRI for the PSNF liability. In the structure discussed in my previous testimony, DRI would be the beneficiary and owner of the trust. WMECO's obligation to DRI for the PSNF liability would have been satisfied in full upon funding of the trust. In the currently proposed alternative, WMECO would own and NUSCO would manage the trust in a similarly structured trust agreement. The liability to DRI for PSNF would remain on WMECO's balance sheet, as would the assets in the trust. The trust assets would be available only to satisfy the PSNF liability to DRI and would not be available to the general creditors of WMECO.

Q. How would the rating agencies view the Long-term Debt and the PSNF liability?

A. As the PSNF liability would remain on WMECO's financial statements, and new Long-term Debt would also be included in the financial statements, WMECO's long term debt and total capitalization as calculated by the rating agencies may increase. However, WMECO would also own the trust, which was funded with proceeds of the Long-term Debt issuance equal to the amount of the PSNF liability. The trust would be recorded in the asset account

“other deferred debits” on WMECO’s balance sheet. Based on the structure of the trust, which would only be available to fund the payment to DRI for the PSNF liability, investment management fees and trustee expenses, it is our view that the rating agencies would also recognize the trust assets as offsetting the PSNF liability to DRI. Whether or not the liability is included in their debt and capitalization calculations, the issuance of the Long-term debt would not impact WMECO’s credit rating.

Q. Has WMECO discussed this new structure with the rating agencies?

A. Yes. WMECO has met with and has had several conversations with Standard and Poor’s (“S&P”), Moody’s Investor Services (“Moody’s”), and Fitch Ratings (“Fitch”). Each rating agency has reviewed the proposal put before the Department today and has concluded that the issuance of Long-term debt would not impact WMECO’s credit rating, subject to satisfactory review of all related documentation, including the draft investment policies and draft trust agreement.

Q. What are WMECO’s current debt ratings?

A. WMECO’s current unsecured debt ratings are BBB+, A3 and BBB+ from S&P, Moody’s and Fitch, respectively.

Q. How would the funds in the trust be invested?

A. WMECO developed draft investment policies to direct the investment of trust assets. These policies will identify certain classes of approved high quality securities to restrict the

trust's investment direction. Additionally, the policies provide parameters regarding diversification, liquidity and maturity. The investment objective is to outperform, on at least a marginal basis, the rate of return required by the DOE to accrue on the PSNF liability. The draft investment policy is appended to this supplemental testimony as Exhibit #1.

Q. Does WMECO have a draft trust agreement?

A. Yes. WMECO has developed a draft trust agreement to govern the trust arrangement as outlined above. The draft trust agreement is appended to this supplemental testimony as Exhibit #2.

Q. Have the rating agencies reviewed the draft investment policies and trust agreement?

A. The rating agencies were provided copies of the draft investment policy and trust agreement. They have not requested any changes to date, and we do not expect to receive any substantive comments.

Q. Please describe the major characteristics of the proposed trust fund.

A. The major characteristics of the trust fund are generally identical to those described on page 8 of my original testimony. It should be noted however that the investment strategy and administration will now be the responsibility of NUSCO as agent for WMECO.

Q. What will happen if the DOE determines that it will not require a payment for PSNF liabilities?

A. In the event that the DOE determines that it will not require a payment from DRI for WMECO's PSNF liability, the trust would be dissolved, the trustee will return the funds in the trust to WMECO, and all of WMECO's liability to DRI for the PSNF would be extinguished. If this event were to occur, it would be to the benefit of WMECO customers, as is currently the case.

Q. What if the DOE reduces the amount of the PSNF liability required?

A. In the event that the DOE reduces the amount of the PSNF liability, as negotiated by DRI (pursuant to the Millstone purchase and sale agreement) on behalf of WMECO, the PSNF liability will be reduced to the settlement amount and the trustee will return the additional amount in the trust that exceeds the settlement amount to WMECO. If this event were to occur, it would be to the benefit of WMECO customers, as is currently the case.

Q. What happens if the DOE increases the amount of PSNF liability required?

A. In the event that the DOE increases the amount that is required, any shortfall in the amount in the trust as compared to the higher DOE required amount obligation will be the responsibility of WMECO. In this event, the shortfall will be the obligation of WMECO customers, as is currently the case. However, as mentioned below, the likelihood of such a shortfall is remote.

Q. What if the trust earns more than what is required to be paid to the DOE?

A. At the time that the trust is dissolved and the required funds are remitted to DRI for payment to the DOE, any incremental amount earned by the trust above the DOE required amount will be returned to WMECO customers.

Q. What if the trust earns less than what is required to be paid to the DOE?

A. At the time that the trust is dissolved and the required funds are remitted to DRI for payment to the DOE, any shortfall in the amount earned by the trust as compared to the DOE required amount will be the responsibility of WMECO customers.

Q. Is there any circumstance in which WMECO would be required to pay additional funds to the DOE (through DRI) for its PSNF liability?

A. There is no expectation that WMECO would be required to pay additional funds to the DOE for this PSNF liability. This pre-1983 liability to the DOE, including the accrual of interest on the liability at the 91-day treasury bill rate, was pre-determined under the Nuclear Waste Policy Act of 1982.

II. NET PLANT TEST

Q. Can you address WMECO's compliance with the Department's net plant test under the use of proceeds proposal set forth in this amended testimony?

A. Yes. WMECO meets the Department's net plant test. As of September 30, 2002, WMECO's net utility plant, utility plant less accumulated depreciation and less construction

work in progress, \$391,147,000, is equal to or in excess of the sum of its outstanding stock (common and preferred, not including retained earnings) and long-term debt (not including the PSNF liability) of \$134,381,000. After giving effect to the issuance of the Long-term Debt and the concurrent reduction of a like amount of the PSNF liability on WMECO's books, as proposed, WMECO will still meet the Department's net plant test as the sum of its outstanding stock and long-term debt will be \$239,381,000.

Q. Do you have any other changes to your initial testimony?

A. No.

Q. Does this conclude your testimony?

A. Yes, it does.